



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

Number: **201424023**
Release Date: 6/13/2014

Date: March 20, 2014

UIL: 501.06-01

Contact Person:

Identification Number:

Contact Number:

Employer Identification Number:

Form Required To Be Filed:

Tax Years:

Dear :

This is our final determination that you do not qualify for exemption from federal income tax as an organization described in Internal Revenue Code section 501(c)(6). Recently, we sent you a letter in response to your application that proposed an adverse determination. The letter explained the facts, law and rationale, and gave you 30 days to file a protest. Since we did not receive a protest within the requisite 30 days, the proposed adverse determination is now final.

You must file federal income tax returns on the form and for the years listed above within 30 days of this letter, unless you request an extension of time to file.

We will make this letter and our proposed adverse determination letter available for public inspection under Code section 6110, after deleting certain identifying information. Please read the enclosed Notice 437, *Notice of Intention to Disclose*, and review the two attached letters that show our proposed deletions. If you disagree with our proposed deletions, you should follow the instructions in Notice 437. If you agree with our deletions, you do not need to take any further action.

If you have any questions about this letter, please contact the person whose name and telephone number are shown in the heading of this letter. If you have any questions about your federal income tax status and responsibilities, please contact IRS Customer Service at

1-800-829-1040 or the IRS Customer Service number for businesses, 1-800-829-4933. The IRS Customer Service number for people with hearing impairments is 1-800-829-4059.

Sincerely,

Director, Exempt Organizations

Enclosure
Notice 437
Redacted Proposed Adverse Determination Letter
Redacted Final Adverse Determination Letter



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

Date: January 30, 2014

Contact Person:

Identification Number:

Contact Number:

FAX Number:

Employer Identification Number:

LEGEND:

B = date
L = state
N = city name

UIL:
501.06-01

Dear :

We have considered your application for recognition of exemption from federal income tax under Internal Revenue Code section 501(a). Based on the information provided, we have concluded that you do not qualify for exemption under Code section 501(c)(6). The basis for our conclusion is set forth below.

Issues

Do you qualify for exemption under section 501(c)(6) of the Code? No, for the reasons provided below.

Facts

You were incorporated on B, in L, "to engage in any lawful act or activities for which corporations may be organized under the general corporation law of" L.

Your Bylaws state that

the purpose of this Club is to bring together a diverse group of business professionals, who through cooperative effort increase business potential for their own enterprise by assisting other members to do the same. The Club holds meetings twice each month where they network by exchanging information, ideas, and referrals. Cooperative efforts in advertising, marketing, and

Letter 4034 (CG) (11-2011)
Catalog Number 47628K

promotional activities benefit each member." Membership is composed of "those merchants and business owners whose business practices are perceived to be of the highest caliber within the City of N."

You describe your purpose as supporting club members by open discussions of business problems and opportunities by generating business for members through referrals and supporting the N community.

You hold luncheon meetings for members twice a month on the first and third Tuesday at a local restaurant. After an initial period devoted to networking, each member has a minute to announce his business's interaction with other members: referrals, business transactions and meetings. A member then makes a presentation about his business. Each member has the opportunity to present at least once a year. After this a member, or an outside speaker he has invited, will speak on some topic pertinent to the running of a business. Cooperative advertising, marketing and promotional activities are also discussed which are designed to help members of the club. You carry on these activities primarily through your web site. "Promotion" refers to events of the business or events in the community that might be of interest to the other members. You hold one or two fund-raising activities each year to support your local community. As you state on your website, members who actively attend meeting have networking opportunities. "

"

Prospective members must be a respected business person in the N community who has been proposed to your current members and must be voted on by current members. All members are required to attend the biweekly meetings and to pay dues. A member is delinquent if he misses four or more consecutive meetings while failing to provide a good excuse to the Membership Director; or if his dues have been delinquent for 30 days. You may also remove members for business practices which reflect negatively on you.

Each member holds one or more business or professional classifications. Normally there is only one member in each classification to prevent a classification conflict and competition among members. A prospective member must be sponsored by another member. If an applicant for membership holds a business or professional classification that is already held by a current member, the prospective member's application is denied without further action or review unless the current classification holder waives his right to be the exclusive classification holder. The member will then vote whether to admit the applicant. He will be admitted so long as ten percent (10%) or more of the members actually casting votes do not vote against admission.

Outside of these guidelines no further description was given as to criteria used for determining membership.

You did not define what business or professional classification was, however, you did submit a listing of current member business types - totaling 31. These included flooring, bank, funeral home, architect, health insurance, roofing and real estate, to name a few.

Every month each member is required to do at least three of the following: Make a referral to another member, do business with another member, meet with another member, attend the After Hours Event (see below), or bring a guest to an event.

From time to time you conduct "After Hours Events", hosted by members, in which members and their guests can associate in a relaxed atmosphere. You will reimburse the host's costs.

You are supported primarily through member dues. Your principal expenses are for your website, advertising and promotions. Since each member buys his own meal, your meeting expenses are primarily breakfast expenses for prospective new members sponsored by existing members.

Law

Section 501(c)(6) of the Internal Revenue Code provides for the exemption of business leagues, chambers of commerce, real estate boards, boards of trade, and professional football leagues (whether or not administering a pension fund for football players), which are not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations define a business league as an association of persons having a common business interest. Its purpose is to promote the common business interest and not to engage in a regular business of a kind ordinarily carried on for profit. Its activities are directed to the improvement of business conditions of one or more lines of business rather than the performance of particular services for individual persons. Business leagues are of the same kind as chambers of commerce and boards of trade, which direct their efforts at promoting the common economic interests of all the commercial enterprises in a given trade community.

Revenue Ruling 59-391, 1959-2 C.B. 151, describes an association organized for the mutual exchange of business information among its members; to facilitate the making of business contacts for its members; to encourage all types of trade expansion for the benefit of its members; and to encourage better business relations among its members. The bylaws state membership shall be composed of persons each representing a different trade and no member shall be in competition with another. Each member submits a list of business acquaintances and agrees to furnish to other members letters of introduction to such acquaintances. The members of the association have no common business interest other than a mutual desire to increase their individual sales. The organization's activities are not directed to the improvement of business conditions

of one or more lines of business, but rather to the promotion of the private interests of its members, which membership is limited by the organization's bylaws to one representative from each line of business. The regulations require that the activities of the organization be directed to the improvement of business conditions of one or more lines of business. To sum up, the members have no common business interest other than a mutual desire to increase their individual sales. The organization's activities are not directed to the improvement of one or more lines of business, but rather to the promotion of the private interests of its members. Accordingly, the association is not a business league within the intendment of section 501(c)(6) of the Code.

Revenue Ruling 67-77, 1967-1 C.B. 138 states a business league's activities must be directed to the improvement of business conditions for all the individuals engaged in that trade or occupation, and not to the performance of particular services for individuals. Thus, an association of dealers selling a particular make of automobile that engages in financing general advertising campaigns to promote the sale of that make is not exempt because it is not promoting a line of business; i.e., the automotive industry as a whole, but performing particular services for its members

Revenue Ruling 67-295, 1967-2 C.B. 197 states an organization composed of businessmen is exempt where its activities were limited to holding luncheon meetings devoted to discussions of various problems in a particular industry directed to the improvement of business conditions as a whole.

Revenue Ruling 68-264, 1968-1 C.B. 264 states that an activity that serves as a convenience or economy to members in the operation of their businesses is a particular service of the type proscribed. The operation of a traffic bureau for members and nonmembers is a clear convenience and economy to them in their businesses, resulting in savings and simplified operations. Accordingly, this activity constitutes the performance of particular services for individual persons.

Revenue Ruling 70-641, 1970-2 C.B. 119 states a nonprofit organization composed of individuals from various professions in the field of public health and welfare, organized to develop greater efficiency in the professions and solve common problems, qualifies for exemption under IRC 501(c)(6).

Revenue Ruling 73-411, 1973-2 C.B. 180 states a shopping center merchants' association whose membership is restricted to and required of the tenants of a one-owner shopping center and their common lessor does not direct its activities to the improvement of business conditions of one or more lines of business. The activities of organization are directed to promoting the general business interests of its members, and the organization performs particular services for its members.

Revenue Ruling 76-400, 1976-2 C.B. 153 states an organization formed as a

membership organization of business and professional women that promotes the acceptance of women in business and the professions qualifies for exemption under IRC 501(c)(6). By sponsoring events devoted to the discussion and consideration of problems affecting women in business and the professions, the organization is promoting a common business interest. To the extent that the organization achieves its goal of improving opportunities for and attitudes toward women, it improves conditions in each of the industries or lines of business from which its members are drawn.

American Fishermen's Tuna Boat Association v. Rogan, 51 F. Supp. 933 (S.D. Calif. 1943) states an organization of tuna fishermen that negotiated with packers for standard prices to be paid to all tuna fishermen, both members and nonmembers, was found to benefit the common business interest even though there was also an incidental benefit to individual members that, standing alone, might have appeared to be a particular service to individuals.

Application of Law

Section 1.501(c)(6)-1 of the Regulations states an organization exempt under 501(c)(6) is one that is an association of persons having a common business interest with the purpose of promoting that common interest. You are not described in section 501(c)(6) of the Code because you are not an association of persons having a common business interest. Your membership consists of various business or professional classifications and generally permits only one member for each classification. You also perform particular services in providing business referrals for those members.

Similar to Revenue Ruling 59-391, you are organized and operated primarily to aid your members in their individual business endeavors. Much like that ruling, your membership is made of various persons each representing a different trade, business, occupation or profession; you do not have one or more lines of business in common. You have a classification conflict clause for potential new members in that no member could be a direct business competitor of another. You have structured your membership in such a way that it is diversified rather than common, excluding potential competition. You hold weekly meetings where members network, exchange business information, promote their businesses to other members, and exchange business referrals or leads - similar to the Ruling's "letters of introduction". Your business assistance services are closed to the direct competitors of your members. Your activities are not directed to the improvement of one or more lines of business, but rather to the promotion of the private interests of your members. Accordingly, you do not qualify as a business league within section 501(c)(6) of the Code.

Similar to the organizations described in Revenue Rulings 67-77 and 73-411, your activities are not directed to improvements in any particular line of business but rather toward particular services for members. You provide, for the exclusive benefit of your members, business referrals, an opportunity to make a formal presentation about his

business to the general membership, favorable conditions for networking and establishing business relationships with other members, exchange of business information, and discussion of strategies for business growth and success, not based on industry. Your meetings focus on networking and referrals and generating business leads for members - not on improving business conditions. As you are serving the particular interests of your members rather than an industry as a whole you do not qualify as a business league within section 501(c)(6) of the Code.

You are similar to the organization in Revenue Ruling 68-264 in that you are relieving members of a burden they would normally incur which is the marketing and networking of their business to the public. By providing a venue at which each member can promote their business, join a cooperative effort in advertising and marketing their business, obtain referrals for their business, and do this without threat of competition from other businesses in the same industry is a clear convenience to members resulting in savings of time and money. Per the ruling, this constitutes the performance of particular services to members and, for this reason, you do not qualify as a business league within section 501(c)(6) of the Code.

Applicant's Position

1. Citing Article I of your Bylaws, you state that you "bring together a diverse group of business professionals with a common business interest *who, through cooperative effort, improve business conditions and increase business potential for betterment of the general commercial welfare*. Membership is to be composed of those merchants and business owners whose business practices are perceived to be of the highest caliber within the City of N, *and who are interested in improving business conditions within the city of N.*" You assert Revenue Ruling 59-391 is not applicable to you because "you have a common business interest of improving common business conditions in the N area and was not created for the purpose of exchanging business prospects." Instead "you were created for the purpose of supporting your members by open discussion of business problems and opportunities, which supports its business purpose of improving business conditions, and to support non-profit activities in the community."

2. You cite Revenue Ruling 76-400, to the effect that an organization "through its activities promotes the common business interest of its members, also improves conditions in one or more lines of business. To the extent that the organization achieves its goal..., it improves conditions in each of the industries or lines of business from which its members are drawn."

3. You cite American Fisherman's Tuna Boat Association v. Rogan, to the effect that if performance of particular services is incidental to a business league's primary activity, exemption under section 501(c)(6) cannot be denied.

4. You cite Revenue Ruling 67-295, as finding that an organization whose members

are all representatives of different industries who work together to improve business conditions in the community of which they are members.

5. Finally you cite Revenue Ruling 70-641 to the effect that the fact that the membership is composed of individuals from a variety of professions does not prevent the organization from qualifying under section 501(c)(6).

Service Response to Applicant's Position

1. The actual text of Article I of your Bylaws is quoted in the Facts section of this letter. The text in italics which you provided is not in the copy of your Bylaws furnished as part of your application. Your activities and purpose descriptions cite networking, referrals, cooperative efforts in advertising, marketing, promotion, generating business leads and selecting diverse businesses not in competition with each other rather your given purpose of supporting your members by open discussion of business problems and opportunities. You share similar activities to those outlined in Revenue Ruling 59-391 as one of the reasons you do not qualify.

2. The organization in Revenue Ruling 76-400 promotes the common business interests of all professional and business women in all industries everywhere. It does not serve the particular interests of a select group of individual businesses. This distinguishes that organization from yours. Your membership is structured to generate business leads in a non-competitive environment rather than improving any particular industry.

3. In American Fishermen's Tuna Boat Association v. Rogan, the association's activities benefited all fishermen, members and non-members alike. You differ from that case in that since your activities are intended to benefit your members exclusively, any services you provide to them are not incidental. Further, your activities are aimed at generating referrals, and a business referral would likely only benefit that particular member, not other members or non-members.

4. You are distinguished from Revenue Ruling 67-295 in that the members referenced in that ruling are all drawn from a particular industry, not different ones.

5. In Revenue Ruling 70-641 membership is open to persons engaged in various professions concerned with public health and welfare, which have business interests in common. You are distinguished from the ruling in that your members share no common interests aside from the city of N.

Conclusion

Your members have no common business interest other than a mutual desire to increase their individual sales; your activities are not directed to improving business conditions in one or more lines of business; and you are performing particular services for your individual members. For these reasons you do not qualify for exemption under Section 501(c)(6) of the Code.

You have the right to file a protest if you believe this determination is incorrect. To protest, you must submit a statement of your views and fully explain your reasoning. You must submit the statement, signed by one of your officers, within 30 days from the date of this letter. We will consider your statement and decide if the information affects our determination. If your statement does not provide a basis to reconsider our determination, we will forward your case to our Appeals Office. You can find more information about the role of the Appeals Office in Publication 892, *How to Appeal an IRS Decision on Tax Exempt Status*.

Types of information that should be included in your protest can be found on page 1 of Publication 892, under the heading Filing a Protest. The statement of facts (item 4) must be accompanied by the following declaration:

"Under penalties of perjury, I declare that I have examined this protest statement including accompanying documents, and to the best of my knowledge and belief, the statement contains all relevant facts, and such facts are true, correct, and complete."

The declaration must be signed by one of your officers or trustees with personal knowledge of the facts.

Your protest will be considered incomplete without this statement.

If your representative submits a protest, a substitute declaration must be included stating that the representative prepared the protest and accompanying documents; and whether the representative knows personally that the statements of facts contained in the protest and accompanying documents are true and correct.

An attorney, certified public accountant, or an individual enrolled to practice before the Internal Revenue Service may represent you during the appeal process. To be represented during the appeal process, you must file a proper power of attorney, Form 2848, *Power of Attorney and Declaration of Representative*, if you have not already done so. For more information about representation, see Publication 947, *Practice Before the IRS and Power of Attorney*. All forms and publications mentioned in this letter can be found at www.irs.gov, Forms and Publications.

If you do not intend to protest this determination, you do not need to take any further action. If we do not hear from you within 30 days, we will issue a final adverse determination letter to you. That letter will provide information about filing tax returns and other matters.

Please send your protest statement, Form 2848 and any supporting documents to the applicable address:

Mail to:

Internal Revenue Service
EO Determinations Quality Assurance
Room 7-008
P.O. Box 2508
Cincinnati, OH 45201

Deliver to:

Internal Revenue Service
EO Determinations Quality Assurance
550 Main Street, Room 7-008
Cincinnati, OH 45202

You may also fax your statement using the fax number shown in the heading of this letter. If you fax your statement, please call the person identified in the heading of this letter to confirm that he or she received your fax.

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

We sent a copy of this letter to your representative as indicated in your power of attorney.

Sincerely,

Director, Exempt Organizations

Enclosure: Publication 892